

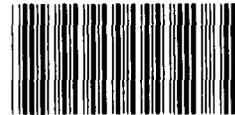
GAO

Briefing Report to the Chairman,
Committee on Armed Services
United States Senate

May 1986

PROCUREMENT

Review of Selected Defense Logistics Agency Procurement Practices



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

May 16, 1986

B-222278

The Honorable Barry Goldwater
Chairman, Committee on Armed Services
United States Senate

Dear Mr. Chairman:

In response to a request from your Committee, we reviewed allegations by various small businesses and small business organizations concerning the Defense Logistics Agency's (DLA's) purchasing policies and practices. These allegations claimed that DLA had acted improperly (1) by purchasing items noncompetitively that had been competitively purchased by the military services and (2) by not having the technical data (drawings, specifications, and processes) available that would allow small businesses to compete for DLA contracts. The allegations were made following the 1982-83 transfer of over 214,000 consumable items from the military services to four DLA centers. Since the allegations mainly concerned the transfer of consumable items from the services to two of these four DLA centers--the Defense Construction Supply Center (DCSC) at Columbus, Ohio, and the Defense Industrial Supply Center (DISC) at Philadelphia, Pennsylvania--we concentrated our efforts at those centers.

In general, our review showed that DCSC and DISC did not purchase items in a manner that was more restrictive than that of the services. The centers had changed the procurement method codes of a small percentage of items from competitive to noncompetitive. However, the changes were justified, usually by the lack of technical data, and had little effect on previous suppliers. The codes for a far greater number of items, approximately five times as many, were changed from noncompetitive to competitive, thereby allowing competition where it had not existed. Overall, competitive procurement has increased since management responsibility was transferred from the services to DLA. At these two centers, small businesses have received over 50 percent of the contracting money and over 65 percent of the procurement awards annually since fiscal year 1980.

However, we found that DCSC and DISC did not have complete technical data packages, which provide the necessary information for a contractor to produce an item, for thousands of items

being bought, including most of those which had been transferred. According to DCSC and DISC officials, this technical data was unavailable, incomplete, or proprietary. We found a higher percentage of complete technical data among the transferred items compared with all items purchased by these two centers. DCSC and DISC are trying to obtain and develop technical data and to encourage potential contractors to develop and submit technical data for review. While the absence of technical data inhibits competition, it may not be economical to develop such data for items seldom purchased or whose annual cost is small. Both centers have given priority to obtaining technical data for items bought frequently and in significant annual dollar amounts.

The results of our review are discussed in more detail in appendix I of this briefing report and our objectives, scope, and methodology are discussed in appendix II. We have discussed this briefing report with Department of Defense officials who agreed with the facts presented and our conclusion. If you have any questions, please call me on 275-4587.

We are sending copies of this report to the Secretary of Defense, the Director, DLA, and to other interested parties upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with a large, sweeping initial "P" and a long, horizontal stroke extending to the right.

Paul F. Math
Associate Director

REVIEW OF SELECTEDDLA PROCUREMENT PRACTICESTHE CONSUMABLE ITEM
TEST TRANSFER

The Secretary of Defense established DLA in 1961 to manage common supply items. Fifteen years after DLA's creation, the military services continued to manage a significant number of consumable items.¹ In 1977, the Office of the Secretary of Defense developed a proposal to transfer management responsibility for approximately 1.2 million of the 1.4 million consumable items then managed by the services to DLA. Initial estimates anticipated annual savings of \$124 million and increased supply effectiveness to result from this transfer.

The 1977 proposal was not adopted immediately, but was subjected to a rigorous internal review and refinement process that included the military services, the Defense Audit Service, and the Defense Logistics Analysis office. As a result of this analysis in July 1981, the Deputy Secretary of Defense directed the military services to transfer management of about 214,000 of their 1.4 million consumable items to DLA to test whether additional items should be transferred. Service activities throughout the country transferred management of these items to four DLA centers between April 1982 and early 1983.

CONCERNS ABOUT DLA
PROCUREMENT PRACTICES DURING
THE TEST TRANSFER

During the 1982-83 transfer of consumable items to DLA, over 118,000 items were transferred to DCSC and DISC. Personnel at those centers identified many instances where information necessary for competitive purchasing of transferred items was missing or inadequate. We were told that while efforts were being made to obtain necessary information, some purchases were made noncompetitively because of an urgent and critical need for the items.

After the transfer, several complaints about restrictive DLA procurement practices were made by individuals and businesses in the southwestern United States. One such complaint

¹Consumable items are those which are consumed in use or replaced after their use because they either cannot be repaired or it is uneconomical to do so. At the time of the consumable item test transfer, DLA managed approximately 2 million such items.

came from a Small Business Administration representative at the Oklahoma City Air Logistics Center. The representative concluded that it was DLA's policy to (1) circumvent laws governing procurements from small and disadvantaged businesses and (2) buy noncompetitively to the maximum extent, procuring competitively only as a last resort. These conclusions were based on a belief that DLA centers (1) were purchasing transferred items noncompetitively and (2) did not have the necessary technical data available to permit competitive procurement. Although the representative listed 39 items thought to be unreasonably procured noncompetitively, the estimate that over \$400 million was being wasted annually in excess costs was based on the increased cost of a single DLA procurement. The representative projected this single item purchase to the procurement of the estimated 200,000 items that were transferred, and assumed all the items would be bought annually. Given this methodology, the representative's estimate of excess costs is not supported.

The Department of Defense (DOD) Inspector General's office reviewed 36 of the 39 items identified by the Small Business Administration's representative. In an audit report dated August 3, 1983, the Inspector General concluded that although problems involving a transfer of such unprecedented size existed, the Small Business Administration official's specific conclusions and stated potential waste were unsupported. The report also stated that some necessary technical data on the transferred items had not been provided to the DLA centers or were not otherwise available at the centers.

Complaints from other quarters were the subject of a January 1984 report, Analysis of Restrictive Practices and Lack of Competition Related to Small Business Operations, prepared by an attorney on behalf of the Association of Southwest Government Contractors. These complaints from a number of small businesses alleged that DLA had changed from competitive to noncompetitive purchasing and protested the absence of technical data available to prospective and current DLA contractors.

ALLEGATION OF IMPROPER NONCOMPETITIVE PURCHASING UNFOUNDED

The allegations claimed that small businesses which had previously provided items to the services on a competitive basis were no longer being solicited because DLA had changed the method of purchasing items from competitive to noncompetitive.

We found that only about 13,500 of the 118,000 items--about 11 percent--transferred to the two centers were actually purchased in fiscal year 1984. We reviewed 650 transferred items randomly selected from those purchased by DCSC and DISC in fiscal year 1984. (See table I.1.) Information on the purchasing method used by the services for 132 items was not available. We were able to determine, however, that 78 of the 132 items were being bought competitively or from a source used before the transfer. Results for the remaining 518 items showed that

--15 items had been changed to noncompetitive status (8 by DCSC and 7 by DISC),

--426 items had no change in status, and

--77 items had been changed to competitive status.

Table I.1: DCSC and DISC Changes in Purchasing Methods for Items Transferred From Services

<u>Purchasing method</u>	<u>Number of items</u>	<u>DCSC</u>		<u>Projected confidence ranges (percent)^a</u>	<u>Fiscal year 1984 average contract value of sample items</u>
		<u>Percent of sample</u>			
No change	171	68		62-74	\$9,678
Service code unknown	60	24		19-29	3,594
Noncompetitive to competitive	11	5		2-8	3,594
Competitive to noncompetitive	<u>8</u>	<u>3</u>		1-5	4,294
Total	<u>250</u>	<u>100</u>			
<u>DISC</u>					
No change	255	64		60-68	11,782
Service code unknown	72	18		15-21	5,521
Noncompetitive to competitive	66	16		13-19	12,589
Competitive to noncompetitive	<u>7</u>	<u>2</u>		1-3	2,442
Total	<u>400</u>	<u>100</u>			

^aHad we reviewed all transferred items purchased by DCSC and DISC for fiscal year 1984, we are 95 percent certain that the results would have been within the ranges shown.

We evaluated DLA's rationale for changing the status of 15 items to noncompetitive status and the effect these changes had on previous suppliers to the military services. DCSC and DISC changed the status of these items because the information the

services gave was inadequate to allow them to procure the items competitively. Despite this change, 14 of the 15 sampled items were purchased from sources used or identified by the transferring service. The single case where DLA did not purchase from a service identified source involved a \$1,043 purchase of 316 vehicle lock assemblies. We were told that DLA had changed sources to achieve a lower price. However, because DLA officials were unable to produce the contract file for our review, we were not able to verify that a lower price was actually obtained.

LACK OF TECHNICAL
DATA INHIBITS COMPETITION

Technical data generally takes the form of drawings and narrative descriptions which indicate an item's shape, dimensions, critical composition and performance requirements. It can be critical to obtaining full and open competition among manufacturers and contractors. This competition, in turn, can reduce the prices that DOD pays for the goods it buys and is, itself, one of the principal assurances that fair and reasonable prices are obtained. In 1983 the DOD Inspector General's office examined 156 high dollar value items as part of its review of technical data management in DOD. The Inspector General concluded that the lack of technical data impeded competition for these items and that by obtaining missing data, significant savings were achievable.

One of the allegations we reviewed claimed that DLA could not provide technical data packages that would allow a properly equipped, technically qualified manufacturer to produce the item. Our review indicated that neither DCSC nor DISC had technical data packages available to potential suppliers for the vast majority of the items it purchased in fiscal year 1984. DLA told us that technical data was not available for these items because it had not been received, it was proprietary, or it was incomplete for use in competitive purchasing. Table I.2 compares the availability of technical data for two groups: all items purchased by DCSC and DISC during fiscal year 1984 versus the transferred items purchased by those centers during fiscal year 1984. Compared with all items purchased by DCSC and DISC, a higher percentage of transferred items had adequate technical data available. Nonetheless, a majority of the transferred items lacked complete technical data.

Table I.2: Availability of Technical Data for Items Purchased by DCSC and DISC in Fiscal Year 1984

Technical data available	DCSC			DISC		
	<u>Number of items</u>	<u>Percent</u>	<u>Fiscal year 1984 average contract value</u>	<u>Number of items</u>	<u>Percent</u>	<u>Fiscal year 1984 average contract value</u>
For all items, including transferred items:						
Available	22,198	19	\$ 7,518	50,475	36	\$ 4,581
Not available	<u>92,166</u>	<u>81</u>	3,551	<u>87,906</u>	<u>64</u>	2,300
Total	<u>114,364</u>	<u>100</u>		<u>138,381</u>	<u>100</u>	
For transferred items:						
Available	3,100	38	8,075	2,404	45	6,060
Not available	<u>5,089</u>	<u>62</u>	12,077	<u>2,909</u>	<u>55</u>	9,522
Total	<u>8,189</u>	<u>100</u>		<u>5,313</u>	<u>100</u>	

DCSC and DISC officials said that because of the high cost of acquiring and maintaining technical data, priority for obtaining technical data is given to items bought frequently and in high annual dollar amounts. At DCSC and DISC, 88 percent and 94 percent, respectively, of the fiscal year 1984 purchases totaled less than \$10,000. Technical data was available for less than 28 percent of these items. Data is more often available for items with higher annual purchases. For example, technical data was available for 38 percent of the items with fiscal year 1984 purchases that totaled in excess of \$10,000 and for nearly 48 percent of the items with fiscal year 1984 purchases totaling over \$50,000.

These centers are attempting to improve competition by increasing the amount of available technical data and by identifying additional sources from which to purchase items. Through projects managed by its value engineering staff, DLA

engineers have developed their own data for some items, provided items to contractors allowing them to develop their own technical data, and qualified new products by evaluating and approving technical data submitted by businesses wanting to sell their products.

EFFECT ON SMALL BUSINESS

The lack of existing technical data restricts the ability of small businesses, and others, to compete for DCSC and DISC contracts. From the government's perspective, however, it simply may not be cost effective to acquire technical data for many items given the small annual procurements that are made. Notwithstanding the technical data limitation, DCSC and DISC awarded small businesses 55 percent and 53 percent, respectively, of all contract funds spent and 66 percent and 72 percent, respectively, of all procurement awards during fiscal year 1984. Fiscal year 1984 was not unusual in that these centers have awarded small businesses approximately 65 percent of their procurements and over half of all contract funds each year since fiscal year 1980. At the request of the Chairman, Senate Committee on Small Business, we are reviewing the DOD Replenishment Parts Breakout Program. As part of this review, we are attempting to find trends in DOD's achievements regarding small business participation and competition.

CONCLUSIONS

The allegation that DLA has made the purchase of transferred items more restrictive by making them noncompetitive is unfounded. The two DLA centers we reviewed were purchasing more of the transferred items on a competitive basis than were the services. The few changes to noncompetitive purchasing appeared justified and had little effect on previous suppliers.

The lack of technical data has an adverse effect on facilitating competition for many items. DLA is trying to make this data available to enhance competition; however, the tasks necessary to do so are formidable. DLA's approach of giving priority to obtaining technical data for those items with high annual dollar purchases and to others to the extent that it is cost effective, seems reasonable.

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the Senate Armed Services Committee, we reviewed the allegations and concerns of a group of government contractors and evaluated the suitability of DLA's practices to accommodate small business bidders.

Consumable items were transferred from the services to four of six DLA supply centers in 1982-83. Since the allegations mainly concerned items transferred to two of these four DLA centers (DCSC and DISC), we concentrated our efforts at those centers to determine whether they:

- Changed the purchasing method of transferred items from that used by the military services.
- Could provide complete technical data packages to potential suppliers.

We selected these objectives because, if the DLA centers had changed purchasing methods from competitive to noncompetitive or if they were unable to provide technical data packages to potential suppliers, competition would be eliminated or restricted and small business offerors, like others, would suffer.

To address the first objective, we reviewed a random sample of procurements of transferred items with fiscal year 1984 contract numbers, to decide (1) whether the competitive and noncompetitive acquisition method codes for each item had changed since the item was transferred to DLA, (2) why any such codes had changed, and (3) how these changes affected DLA contracting procedures. The samples were designed to provide a 95-percent confidence level with a sampling error of 5 percent or less.

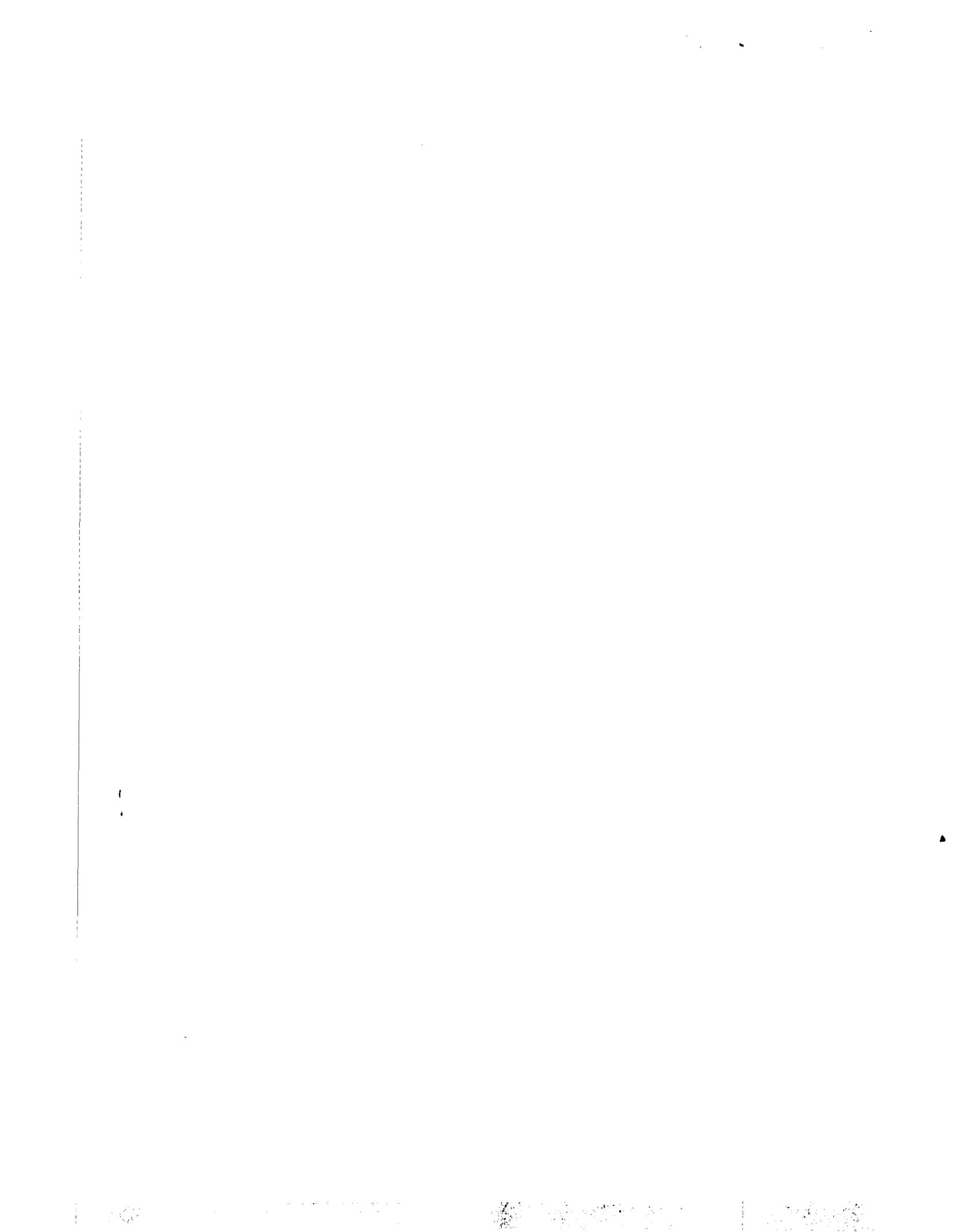
To address the second objective, we obtained copies of DCSC and DISC procurement computer files and analyzed all fiscal year 1984 procurements listed in these files by their assigned codes to determine the availability of technical data. We also reviewed the same random sample of transferred items used in addressing the first objective to decide whether DCSC and DISC had technical data packages available to potential suppliers. For those sample items for which the centers did not have technical data packages, we determined the reason why data packages were not available.

Our examination of federal and defense policies and procedures for the procurement of spare parts specifically focused on DLA policies and procedures regarding small businesses and the procurement of technical data packages. We also reviewed correspondence relating to small businesses, technical data packages, and the procurement process. We discussed these issues with DLA, the Small Business Administration, and DOD Inspector General officials.

We examined a report prepared by an attorney for the Association of Southwest Government Contractors and the DOD Inspector General's audit report No. 83-164, dated August 3, 1983. The attorney for the Association complained about DLA procurement practices changing from competitive to noncompetitive purchasing. The DOD Inspector General after reviewed 36 of the 39 items identified by a Small Business Administration representative as being unreasonably procured noncompetitively. We also reviewed protests filed with us and the corresponding decisions concerning contractual provisions used by the DLA activities receiving the transferred items.

We performed our work at Headquarters, DLA, Cameron Station, Virginia; DCSC, Columbus, Ohio; DISC, Philadelphia, Pennsylvania; Headquarters, DOD Inspector General, Arlington, Virginia; and DOD Inspector General field office, Philadelphia, Pennsylvania.

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